

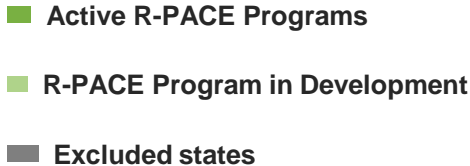
Virginia R-PACE Program Overview

Framework to Ensure Success

July 2021

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Process Overview

PACE legislation state approval

County/city “opt-in”

Underwrite PACE program

Source transactions

Fund transactions



Collections

Source: PACENation

BENEFITS OF PACE FINANCING

PACE overcomes hindrances in energy efficiency adoption and solves upfront cost barriers by providing 100% financing for projects. The long-term repayment (up to 30 years) results in cash flow positive longer payback projects which increases building value. PACE makes it easier for contractors to close larger sales.



1. Framework

States pass enabling laws that allow local governments to offer PACE financing to building owners. PACE is completely voluntary.



2. Project

Qualified PACE service providers help building owners select cost-effective projects that make good business sense.



3. Financing

PACE programs process applications, qualify projects and provide or arrange financing. An assessment or charge is added to the property's tax roll once the funds are disbursed.

Benefits of PACE

Homeowners

Reduce your energy bills and make your home more efficient and resilient

Energy efficiency is the least expensive energy we can buy. Homeowners are using R-PACE to upgrade their homes with energy efficiency, renewable energy, and resiliency to hurricanes and fires. R-PACE is an effective financing tool because it:

- Covers 100% of home upgrade project
- May result in savings from day one due to long financing terms
- Can help lower electric, gas and water utility bills
- Results in more comfortable buildings and improved indoor air quality
- Lowers carbon footprint and improves the environment
- Can be used to make your home more resilient to hurricanes and fires (depends on program offerings)

State and local Governments

Economic development and job creation through clean energy

R-PACE is an economic development engine that's energized local economies from D.C. to L.A. and thousands of cities and towns in between. R-PACE makes it possible for homeowners to obtain low-cost, long-term financing for energy efficiency, water conservation, renewable energy projects, and more.

- Creates economic stimulus (an estimated \$1 million in PACE investment generates \$2.5 million in economic activity)
- Creates jobs (USC researchers estimated that in one PACE program, \$1 million investment in PACE created approximately 12 jobs)
- Helps meet state and local goals for emissions reduction, economic development, and resiliency
- Can be no / low cost to the municipality, and uses private financing dollars

Source: PACENation

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ELIGIBLE IMPROVEMENTS⁽¹⁾

Energy Efficiency



Lighting
Upgrades



HVAC
Systems



Building Envelope
& Insulation



Automatic
Building Controls



Variable
Frequency Drives



Boilers &
Hot Water Heating



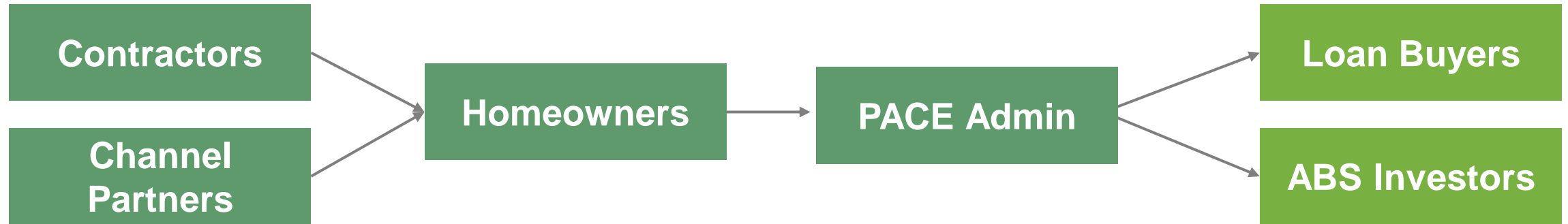
Roof
Replacement



Water
Conservation

1. Eligibility may vary by state and municipality

ORIGINATE TO SELL BUSINESS MODEL



Go-to-Market

- Work with contractors and channel partners to offer attractive financing options for PACE-approved residential projects

Origination

- Fixed rate, rather than variable Home Equity Loan rates
- Instantaneous appraisal
- No FICO score check
- Repayment terms aligned with useful life of installed products
- Tax deductible and no prepayment penalty

Underwriting

- Fast approval process and high approval rates
- Qualifier potentially transferrable with sale of home

Monetization

- Highest advance rate given the security of the loan vis-à-vis entire ABS market
- Revenue generated from gain on sale of about 12% under current forward flow
- Strong demand in ABS markets, 144A deals are 4-5x oversubscribed

HANDS-ON ALLIANCE WITH CONTRACTOR PARTNERS

PFG has an experienced team of contractor account managers (CAMs) with existing relationships with active PACE financing users



● Extensive Vetting Process

- New contractors must be referred or be interviewed by a PFG account manager
- Contractors must complete application and execute Dealer Agreement
- Detailed, multi-source background checks for all potential contractors



● Thorough Proprietary Training

- New contractors must successfully pass the PACEfunding crash course
- Course topics include: PACE 101, finance, consumer protection, quoting/processing
- Fully on-boarded in one week



● Continuous Management and Compliance

- Customer Satisfaction Survey after project completion
- Consumer complaint resolution procedures
- Physical inspections for new and seasoned contractors
- One-strike policy for verified fraudulent activity

BEST IN CLASS PARTNERS

PACE Bond Issuers



- Quasi-government entity
- Sponsors an "Open PACE" Program
- 500+ members & \$50+ billion in issuance



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- Experienced PACE Issuing Authority



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Tax Administrator



- Places assessments on tax roll
- Manages repayments & delinquencies
- Monitors programs & transactions

PACE Bond Trustees



- Manage & disburse proceeds & repayments
- Prominent trustees for multiple programs & transactions

ILLUSTRATIVE R-PACE TERM SHEET

Key Highlights

- 🏠 The collateral is pari passu with the municipality's property taxes (super priority security interest ahead of mortgage)
- 🏠 Coupon is fixed rate with straight line amortization
- 🏠 Payments are typically made annually
 - ◆ In some cases, the homeowner makes monthly payments in an impound account that settles annually on the assessment

Category	Term
Borrower	Homeowner
Use of Proceeds	Finance the installment of energy efficient home improvements (lighting, HVAC, building envelope & insulation, automatic building controls, variable frequency drivers, boilers & water heating, roof replacement, and water conservation)
Loan Amount	\$26,000
Coupon	7.34%
Term	5 – 30 years
Collateral	Tax assessment (pari passu with municipality's property taxes, becoming super priority security interest ahead of mortgage)
Current Assessment Annual Payment	\$3,097
Assessment LTV	8.90%
Mortgage LTV	57.88%
Combined LTV (CLTV)	66.77%

COLLECTIONS & SERVICING

California

- ☞ Installments and expenses are billed and collected by each county on its property tax roll
 - The property tax bills identify the amounts to be paid for the year as two equal installments: payments are billed November 1 and February 1 of each year
 - The county collects all payments
- ☞ The participating counties are responsible for billing and collecting the PACE Assessments
 - Each PACE Assessment is included on a property owner's tax bill as a separate line item
 - DTA, as tax administrator, maintains a database of the parcels within the PACE programs, which includes the valuation, the annual PACE Assessment amount, and all other relevant data
 - DTA will submit an annual assessment levy to each county's tax collection authority around August 10th of each year so that the PACE Assessments are included on the relevant tax rolls each year as required by the relevant county
- ☞ Under California law, counties do not allow for partial payments (except in Los Angeles and Santa Clara)
 - In all counties except Los Angeles and Santa Clara, all tax and assessment payments must be paid in full or the payment will not be accepted and will be returned to the taxpayer
 - In all counties, all PACE Assessment payments are pari passu with property tax payments
- ☞ Once received, the county sends assessment proceeds to the PACE Bond trustee (BNY Mellon) two or more times per year for disbursement to bondholders
 - Prepayments of PACE Assessments are permitted with no prepayment penalties

Florida

- ☞ PACE Assessments are required to be placed on the property owner's tax bill
 - PACE Assessments funded by the end of June are generally placed on each county's tax roll on or around the following September 10
 - Property owners that execute a financing agreement agree to fund interest amounts specified in the agreement relating to the period from the date that funds are advanced under the financing agreement through the date of initial annual payment on the property tax bill
 - The portion of the purchase price of any FDFC PACE Bond corresponding to these capitalized interest amounts is deposited into an account designated by the purchaser
 - All Florida PACE Assessments in PACEF 2020-1 are FDFC PACE Bonds
- ☞ The relevant county property appraiser also sends out notices of proposed property taxes in August of each year, specifying to each property owner its estimated taxes
 - Some county property appraisers declined to include special assessments, like PACE Assessments, in such notices of proposed property taxes
- ☞ DTA assists with the administration of the PACE programs and coordination with the relevant property appraisers and tax collectors of each county
 - DTA maintains a database of the parcels within the PACE programs, including the assessor's parcel number, installment and expense amounts and other relevant data
 - DTA submits the installment and expense amounts on or before June 15 of each year
- ☞ PACE Assessments are payable in equal annual installments together with the property owner's ad valorem real estate taxes

PACE CONSUMER PROTECTIONS EXCEED OTHER CONSUMER FINANCING OPTIONS

	PACE	HELOC	Unsecured Debt
Fixed rate/ fully amortizing	✓	✗	✗
Price cap protection on project cost	✓	✗	✗
Minimum level of equity in home required	✓	✓	✗
Can't be delinquent on property related debt	✓	✓	✗
Loan to value limit	✓	✓	✗
Can't be in bankruptcy	✓	✗	✗
Terms verification call to confirm understanding of financing	✓	✗	✗
Additional call to elderly (over 80) after contractor leaves house	✓	✗	✗
Certificate of completion required before funding	✓	✗	✗
Completion call before funding to verify project completed	✓	✗	✗
Third party inspection verifying project completed before funding	✓	✗	✗
Rigorous contractor oversight and training	✓	✗	✗

For consumers, PACE is one of the safest forms of home improvement financing

BUT UNIQUE ASPECTS TO PACE REQUIRE ADDED LEVELS OF COMPLIANCE MEASURES

- ⌵ **Included in property taxes-** delinquencies can lead to foreclosure
- ⌵ **Delayed payments-** payments can be delayed for up to 18 months which causes problems that can go undetected for months until property tax bill arrives
- ⌵ **Time lag in recording assessment-** recording liens on tax roll can take up to 2+ weeks after PACE documents signed
- ⌵ **Government affiliation-** approval by local municipalities can be misconstrued as government program

TYPES OF PROBLEMS IF CONTRACTORS AREN'T CLOSELY MANAGED

TYPES OF PROBLEMS	DESCRIPTION	EXAMPLES (Not Exhaustive)
Application Create Fraud (Financing or CO Reg)	PACEfunding receives false or misleading information in connection with a finance application or contractor registration	<ul style="list-style-type: none"> Family member or 3rd party applies for financing posing as homeowner Homeowner or 3rd party provides false information with respect to income or other PACE assessments on title 3rd party applies using stolen PII (Identity theft) 3rd party E-signs financing documents and/or COC
Non-Delivery, Incomplete, Substandard Work	Homeowner authorizes payment to the contractor, but the contractor does not perform any or part of the work, including obtaining permits/PTO, or the work is of substandard quality	<ul style="list-style-type: none"> Homeowner signs COC before project completion due to pressure or promises from contractor Homeowner signs COC before inspecting the completeness and/or quality of the work
Account Takeover	3 rd party gains control of consumer account and then hides the financing documents and/or makes unauthorized transactions. 3 rd party gains control of contractor account	<ul style="list-style-type: none"> Contractor obtains the homeowner's PIN and signs the COC Contractor controls the email address on file and signs all documents or prevents homeowner from receiving documents
Ineligible Products	Contractor and homeowner provide false or misleading information with respect to eligible products to be installed with the intent on installing ineligible products	<ul style="list-style-type: none"> Contractor and homeowner provide eligible products as the scope of work with the intent of used PACEfunding financing for ineligible work such as a kitchen/bathroom remodel or ADU infrastructure
Cash Back at Funding	Contractor provides cash back to homeowner. Cash back is hidden from PACEfunding	<ul style="list-style-type: none"> Contractor provides cash back to homeowner and the monies are included in the overall cost of the financed project
Loan Stacking (Pace and/or Unsecured)	Homeowner taking multiple assessments/loans from different providers or products without intent of repayment or borrower with financial problems who needs more than one assessment/loan to make ends meet	<ul style="list-style-type: none"> A portion of this fraud type mitigated by PACE Lien Registry Homeowner takes out multiple assessments from different PACE administrators and exceeds the LTV limit Homeowner takes on PACEfunding financing and unsecured loan and is not able to make payments

CONSUMER PROTECTION STANDARDS

#	Standard	Description
1	Ability to Pay	Use consumer financial services industry standards to determine that the homeowner has an ability to repay the financed amount by referencing third party information or data models based on the property owner.
2	Eligible Measures	Only finance eligible measures, and the work required to enable those measures, consistent with applicable law.
3	Pricing Guidelines & Useful Life Determinations	Establish max financing amounts for eligible measures and set max repayment terms based on government agency or other reputable third party standards to ensure the financing term does not exceed the anticipated useful life of the eligible measure.
4	Interest Rates	Only offer fixed interest rates and amortizing payments. Floating interest rates or negative amortization financing terms not permitted. Capitalized interest in principal balance of financing does not constitute negative amortization.
5	Total Maximum Financing Amount	Total max financing amount per eligible R-PACE property should be set at 20% of the fair market value of the property. Use consumer financial services industry standards to confirm the combined total of the R-PACE financing and the aggregate outstanding balance of all mortgage debt and existing R-PACE liens at the time of approval does not exceed 100% of the property value.
6	Written Financing Disclosures	Each homeowner provided written disclosures outlining interest rate, term, payment schedule, fees, and FHFA/FHA rule that all PACE financing, HELOCs and Home Equity Loans may need to be paid off in a sale or refinance.
7	5 Day Right to Cancel	Homeowners may cancel R-PACE financing for any reason without penalty within 5 business days from the date of signing the agreement.
8	Homeowner Identification and Verification	Use appropriate methodology or technology to identify and verify the homeowners.
9	Welcome Call (Confirmation of Initial Terms)	Conduct a live, recorded telephone call with homeowner on every R-PACE financing application intended to ensure the homeowner understands all key financing terms.

CONSUMER PROTECTION STANDARDS (CONT'D)

#	Standard	Description
10	Current on Property Taxes and Mortgage	Use industry standards to verify all property taxes and mortgage(s) on property are current and the property's mortgage is not in forbearance.
11	No Reverse Mortgages or Properties Gifted by a Non-Profit Entity	Properties subject to an existing reverse mortgage product (HECM) are not eligible for R-PACE financing. Properties gifted to homeowners by non-profit entities are not eligible for R-PACE financing.
12	Contractor Standards and Management	Written protocols for selecting and managing home improvement Contractors, including (a) confirming Contractors are licensed, insured and bonded; (b) ensuring the Contractors complete program training; (c) requiring Contractors comply with marketing and advertising standards; (d) tracking complaints against Contractors; and (e) monitoring conduct of Contractors.
13	No Disclosure of Maximum Financing Amount	Will not directly disclose to Contractor the max amount of financing available to homeowner.
14	Satisfactory Completion of Work	Will not issue payment to contractor or place an assessment on property without first verifying the work has been completed, either through written certification from the homeowner, through a recorded telephone call, or through a site inspection performed by a third party.
15	Printed Copies of R-PACE Financing Documents	In addition to electronic copies, R-PACE Administrators provide printed copies of all R-PACE financing documents to homeowners after execution by the homeowners in accordance with all applicable law.
16	Lien Registry	R-PACE Administrators jointly maintain a lien registry to mitigate duplicative liens resulting from R-PACE financing.
17	Asset Verification	100% inspections via geotagged picture inspection software

AND TECHNOLOGY INCREASINGLY EFFECTIVE IN DETECTING FRAUD

Homeowner Impersonation



Contractor Coercion/Customer Collusion



Assessment Stacking: Double-Billing



Assessment Stacking: Evasion of PACE Limits



Governmental Regulation Activities



🏛️ Federal - Consumer Financial Protection Bureau (CFPB)

- ◆ **Final Regulations** on R-PACE rules- still waiting
 - ◆ Focused on Ability to Pay (ATP) but may be broadening scope of proposed changes to R-PACE rules under new Director
 - ◆ New Acting Director David Ejio (Biden appointee)
replaced former Director Kathy Kraninger (Trump appointee)
- ◆ **Voluntary request for data**
 - ◆ Following much discussion with CFPB, R-PACE providers received a voluntary request for data from CFPB late 2020
 - ◆ R-PACE provider concerns about customer PII and requests for assurances of data security in transfer and with the CFPB's use of a third party company (Experian) were not resolved
 - ◆ Encrypted data was finally provided on all assessments nationally to CFPB in January 2021 by all providers
 - ◆ CFPB was unable to use the data they requested as they had not requested sufficient data to be able to interface with Experian
- ◆ Discussions ongoing as to how to move forward

Governmental Regulation Activities



🏛️ California - Dept of Financial Protection & Innovation (formerly DBO)

- ◆ **Annual Report:** PFG submitted 2019 annual report and currently working on 2020 report
- ◆ **Examination:** PFG under Examination by DFPI since November 2020. All areas of the company under examination, from advertising and training materials to privacy policy accessibility, and Board structure, etc.
 - Sample assessment packages submitted for closer examination involving hundreds of documents, call recordings etc.
 - Sample complaint files submitted for closer examination

Four other R-PACE programs were audited prior to PFG

🏛️ DFPI Rulemaking in final stages

- ◆ Five rounds of comments thus far – draft regulations have become less onerous over time but still a few tough measures
- ◆ Effective date now expected 12/31/21

California Legislative History- R-PACE

- September 2016, California **AB 2693** was signed into law establishing comprehensive financial disclosures for PACE assessments
- In October 2017, California **AB 1284 and SB 242** were signed into law. Collectively, the bills sought to strengthen consumer protections and establish a regulatory framework for the PACE industry in California
 - Established Department Financial Protection and Innovation (DFPI) formerly the Department of Business Oversight (DBO) as regulatory authority for Program Administrators.
 - Required evaluation of homeowner's "ability-to-pay" and income verification
 - Mandated phone calls with all customers confirming financing terms prior to execution of financing documents
 - Established contractor salesperson licensing and training requirements
- Two additional PACE bills were signed into California law in September 2018
 - **AB 2063** modifies components of current law related to bankruptcy and mortgage payment history that automatically disqualified homeowners prior to the determination of their ability to pay
 - § Amends bankruptcy lookback period to 2 to 4 years
 - § Additionally, allows income (and debts) of spouses and domestic partners of the owners of the subject property to be included in determining ability to pay
 - **SB 465** expanded PACE by allowing homeowners in certain jurisdictions to use PACE financing to make wildfire resilience and safety improvements to their homes

California Legislative History- R-PACE (continued)

- During the most recent 2019-2020 legislative session two pieces of legislation, **AB 1551** and **AB 2471** were passed
 - Prohibits PACE assessment contracts from containing a prepayment penalty
 - Prohibits PACE program administrators from executing an assessment contract related to a property that is subject to a reverse mortgage
 - Requires PACE program administrators to provide the property owner with a printed copy of the financing estimate and disclosure form prior to executing the financing agreement unless the property owner opts out in writing
 - Expanding the 3 day right to cancel to 5 days for anyone 65 years and over

Missouri Legislative History- R-PACE

HB 697 (2020) effective for contracts 1.1.21

- Division of Finance to examine District every two years

- LTV ration between 80% and 97% of true value plus 10%

- Establishes 3 day right to cancel

- Insurance policy on each assessment (if such exists)

- Specifies language to be used in disclosures

- Specifies language to be included on website

- Establishes that no tax advice may be given

- Establishes verbal confirmations

- Establishes that there can be no difference in price paid for improvements financed by PACE compared to those paid for by cash